

**Alabama PACT**  
***12/31/2013 Quarterly Valuation***  
*January 2014*

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## Alabama PACT Board

Sherman Actuarial Services, LLC (SAS) was retained to report on the funding status and projected cash flows of the PACT as of December 31, 2013. Since this is a quarterly valuation, there is less detail provided than in the full valuation as of September 30, 2013. The Summary of Funding section on page 4 describes the current results and compares those results to the September 30, 2013 valuation. The results are based on the recent Supreme Court ruling affirming the Settlement, whereas the September 30, 2013 valuation was based on payment of full benefits assuming no Settlement.

## Assumptions and Methods

### 1. Data and Assets

The valuation was performed using contract data supplied by the Plan Administrator as of December 31, 2013 and financial data reported to you as of December 31, 2013. SAS did not audit the data although they were reviewed for reasonableness and consistency with the audited September 30, 2013 information. The results of the analysis are dependent on the accuracy of the data.

The asset value as of December 31, 2013 was \$217,641,251.

### 2. Weighted Average Tuition (WAT)

The assumed WAT values are shown in the following table. The assumed credit hours were unchanged from the September 30, 2013 valuation at 13 hours per semester. The December 31st results are based on the weighting of PACT beneficiaries from recent experience, and the 2010 tuition rates.

|                | September 30, 2013<br>Valuation | December 31, 2013<br>Valuation |
|----------------|---------------------------------|--------------------------------|
| Auburn/Alabama | \$7,564                         | \$7,564                        |
| Regional       | 5,858                           | 5,858                          |
| Junior & CC    | 3,389                           | 3,389                          |
| OOS & Private  | 6,236                           | 6,236                          |

### 3. Tuition Inflation

For the December 31, 2013 valuation, we assumed a tuition inflation assumption of 0% per year.

### 4. Investment return

The investment return assumption was unchanged from the September 30, 2013 valuation as shown below.

| Fiscal Year   | September 30, 2013 | December 31, 2013 |
|---------------|--------------------|-------------------|
| <u>Ending</u> | <u>Valuation</u>   | <u>Valuation</u>  |
| 2014          | 1.30%              | 1.30%             |
| 2015          | 1.00%              | 1.00%             |
| 2016          | 1.40%              | 1.40%             |
| 2017+         | 2.00%              | 2.00%             |

### 5. Payment of Tuition

The December 31, 2013 valuation assumed usage of 128 credit hours at a rate of 13 hours per semester, which is the same as was assumed for the September 30, 2013 valuation.

### 6. Education Trust Fund Payments

As in the September 30, 2013 valuation, we assumed total contributions of \$547,629,100 from the Education Trust Fund into the PACT Trust Fund. These payments have a present value of \$487,176,785.

### 7. Cancellations

The assumed cancellation of PACT contracts based on the grade of the beneficiary was unchanged from that assumed as of September 30, 2013 are shown below.

|                         |             |
|-------------------------|-------------|
| Age 0 through 9th grade | 0% per year |
| 10th grade              | 1%          |
| 11th grade              | 1%          |
| 12th grade              | 1%          |

### 8. School Choice

Contract beneficiaries are assumed to attend school according to the probabilities shown in the following table:

| <u>College Type</u>                         | <u>September 30, 2013</u> | <u>December 31, 2013</u> |
|---|---------------------------|--------------------------|
| Private/Out-of-State                        | 17%                       | 17%                      |
| Community College                           | 15%                       | 15%                      |
| University of Alabama and Auburn University | 53%                       | 53%                      |
| Other Alabama Universities                  | 15%                       | 15%                      |

### 9. Administration Expenses

For the December 31, 2013 valuation, we assumed the administrative expenses will be \$750,000 for the remainder of FYE14, \$1,000,000 for FYE15, \$950,000 for FYE16 and FYE17, \$925,000 for FYE18 through FYE25, \$900,000 for FYE26, decreasing by \$100,000 per year for six years then eliminated.

## 10. Other

All other assumptions and methods are identical to those used in the September 30, 2013 actuarial valuation.

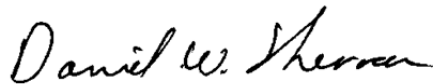
### Purpose of This Report

This report is prepared for The State of Alabama PACT Board. It is expected that this report will be used to monitor the funding status and projected cash flows of the PACT. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. No one may make any representations or warranties based on any statements or conclusions contained in this report without the written consent of SAS.

### Qualifications

Daniel Sherman is an Associate of the Society of Actuaries, and a Member of the American Academy of Actuaries. He served as the actuary to the Alabama PACT plan for ten years, and is the current actuary for the Texas, and West Virginia prepaid tuition programs. He meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

SHERMAN ACTUARIAL SERVICES, LLC



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Daniel Sherman, ASA, MAAA, EA  
CEO and Consulting Actuary

### Summary of Funding

The table below is a summary of the results showing the total costs to the State of Alabama to maintain the program as of December 31, 2013. Note that although the funded status greater than 100%, the cash flow projections show that the fund will be depleted at various points in time before sufficient assets are transferred from the Education Trust Fund.

|   | September 30, 2013<br>Annual Valuation | December 31, 2013<br>Valuation |
|---|--|--------------------------------|
| <b>Assets</b>   |  |                                |
| a. Market Value of Assets                                 | 231,037,553                            | 217,641,251                    |
| b. Present Value of future<br>contract purchaser payments | 15,643,284                             | 14,646,211                     |
| c. Administrative Expenses                                | (13,473,403)                           | (13,267,416)                   |
| d. Present Value of Education<br>Trust Fund payments      | 485,606,200                            | 487,176,785                    |
| e. Subtotal (a + b + c + d)                               | 718,813,634                            | 706,196,830                    |
| <b>Liabilities</b>  |  |                                |
| f. Present Value of tuition and<br>cancellation payments  | 655,095,893                            | 638,758,995                    |
| <b>Funded Status</b>                                      |  |                                |
| g. Reserve (e – f)  | 63,717,740                             | 67,437,835                     |
| h. Funded Ratio   | 109.5%                                 | 110.3%                         |

**Projected Cash Flow**  
**December 31, 2013 Valuation**  
**(millions)**

| Fiscal Year         | Benefit Payments | Contract Holder Payments | Education Trust Fund Payments | Admin Expenses | Income | EOY Assets |
|---------------------|------------------|--------------------------|-------------------------------|----------------|--------|------------|
| 12/31/2013          |                  |                          |                               |                |        | \$ 217.6   |
| 1/1/14 - 09/30/14   | \$-51.6          | \$4.60                   | \$0.00                        | -\$0.75        | \$1.85 | 171.7      |
| 10/01/14 - 09/30/15 | -98.2            | 2.6                      | 23.6                          | -1.0           | 1.1    | 99.8       |
| 10/01/15 - 09/30/16 | -89.1            | 2.1                      | 34.0                          | -1.0           | 0.9    | 46.7       |
| 10/01/16 - 09/30/17 | -82.2            | 1.7                      | 42.6                          | -1.0           | 0.4    | 8.2        |
| 10/01/17 - 09/30/18 | -72.6            | 1.4                      | 61.8                          | -0.9           | -0.2   | -2.3       |
| 10/01/18 - 09/30/19 | -59.2            | 1                        | 55.5                          | -0.9           | -0.3   | -6.2       |
| 10/01/19 - 09/30/20 | -50.8            | 0.7                      | 88.7                          | -0.9           | 0.1    | 31.6       |
| 10/01/20 - 09/30/21 | -44.4            | 0.5                      | 31.9                          | -0.9           | 0.3    | 19.0       |
| 10/01/21 - 09/30/22 | -38.0            | 0.3                      | 32.2                          | -0.9           | 0.1    | 12.7       |
| 10/01/22 - 09/30/23 | -30.6            | 0.2                      | 33.5                          | -0.9           | 0.2    | 15.1       |
| 10/01/23 - 09/30/24 | -23.2            | 0.1                      | 33.7                          | -0.9           | 0.3    | 25.1       |
| 10/01/24 - 09/30/25 | -16.9            | 0.0                      | 38.4                          | -0.9           | 0.7    | 46.4       |
| 10/01/25 - 09/30/26 | -11.9            | 0.0                      | 39.2                          | -0.9           | 1.2    | 74.0       |
| 10/01/26 - 09/30/27 | -7.8             | 0.0                      | 32.5                          | -0.8           | 1.7    | 99.6       |
| 10/01/27 - 09/30/28 | -5.3             | 0.0                      | 0.0                           | -0.7           | 1.9    | 95.5       |
| 10/01/28 - 09/30/29 | -3.4             | 0.0                      | 0.0                           | -0.6           | 1.9    | 93.4       |
| 10/01/29 - 09/30/30 | -1.8             | 0.0                      | 0.0                           | -0.5           | 1.9    | 93.0       |
| 10/01/30 - 09/30/31 | -0.7             | 0.0                      | 0.0                           | -0.4           | 1.8    | 93.7       |
| 10/01/31 - 09/30/32 | -0.1             | 0.0                      | 0.0                           | -0.3           | 1.9    | 95.2       |
| Total               | -\$739.7         | \$ 15.2                  | \$ 547.6                      | -\$ 15.3       |        |            |

The sum of the values may not match the total shown due to rounding.

Assumptions

- Settlement
- Fall 2010 Tuition rates
- Tuition Inflation at 0%
- Normal Cancellation rates